

HOUSE BILL REPORT

HB 1719

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to electricity generation sales and use tax exemptions.

Brief Description: Concerning the electricity generation sales and use tax exemptions.

Sponsors: Representatives Hasegawa and Hudgins.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/9/09, 2/18/09 [DP].

Brief Summary of Bill

- Provides a partial sales and use tax refund on sales of certain renewable energy machinery and equipment.
- Specifies that the remaining sales and use tax not subject to the partial refund be transferred to the Green Industries Jobs Training Account.
- Requires persons receiving the partial refund to comply with prevailing wage requirements and to ensure that no less than 15 percent of the labor hours used to install the equipment are performed by apprentices for installation costing more than \$35,000.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass. Signed by 9 members: Representatives McCoy, Chair; Eddy, Vice Chair; Carlyle, Finn, Hasegawa, Hudgins, Jacks, Takko and Van De Wege.

Minority Report: Do not pass. Signed by 7 members: Representatives Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Condotta, Herrera, Hinkle, McCune and Morris.

Staff: Scott Richards (786-7156)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Sales and Use Taxes.

Sales tax is imposed on retail sales of most items of tangible personal property and some services. The use tax is imposed on the same privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales taxes are levied by the state, counties, and cities, and total rates vary from 7 to 8.9 percent. The use tax is paid directly to the Department of Revenue.

Sales and Use Tax Exemption for Renewable Energy Machinery and Equipment.

A sales and use tax exemption applies to the sale or use of machinery and equipment used directly in generating electricity from renewable sources. The qualifying sources are fuel cells, wind, sun, and landfill gas. The exemption also applies to labor and services rendered in respect to the installation of eligible machinery and equipment. The generating facility must be capable of generating at least 200 watts of electricity.

The exemption expires June 30, 2009.

Legislative Tax Preference Performance Reviews.

In 2008 the Joint Legislative Audit and Review Committee, as part of its tax preference performance review process, estimated the total state and local taxpayer savings related to sales and use tax exemption for renewable energy machinery and equipment to be \$26.7 million in the 2008 fiscal year, growing to \$36.4 million by the 2011 fiscal year.

Green Industries Jobs Training Account.

By 2020 the state's goal is to increase the number of clean energy jobs to 25,000. The Account was established in 2008 to train and transition workers to clean energy jobs. Expenditures from the Green Industries Jobs Training Account (Account) may be used only as grants, distributed on a competitive basis, for the purpose of: (1) training workers for high-wage occupations in high-demand industries related to the green economy; and (2) educational purposes related to the green economy.

Summary of Bill:

Partial Sales and Use Tax Exemption for Renewable Energy Machinery and Equipment.

A partial exemption in the form of a refund is provided for sales or use of machinery and equipment used directly in generating electricity using fuel cells, wind, sun, or landfill. The partial exemption also applies to labor and services rendered in respect to the installation of eligible machinery and equipment. The refund equals 70 percent of the state sales tax.

A person receiving the partial exemption must comply with prevailing wage requirements on all installations. For installation projects with machinery and equipment costs of \$35,000 or more, a person must ensure that no less than 15 percent of the labor hours installing the equipment or machinery are performed by apprentices.

The partial exemption expires June 30, 2015.

Green Industries Jobs Training Account.

The State Treasurer must periodically transfer from the General Fund to the Account 30 percent of tax refund requests not subject to the partial sales and use tax exemption.

Reporting Requirements.

A person who receives a partial sales and use tax exemption must make an annual report to the Department of Revenue detailing employment, wages, use of apprentices, and employer-provided health and retirement benefits. The report must also detail employment by the total number of full-time, part-time, and temporary positions. Additionally, the report must detail compliance with the statutory prevailing wage requirements on all installations and the use of apprentices for all installations of electricity generation equipment and machinery that costs \$35,000 or more.

The report is due by March 31 following any year in which a tax exemption is claimed or used. The first report filed by the recipient of the partial exemption must include employment, wage, benefit information, and use of apprentices for the 12-month period immediately before the first use of a tax exemption.

The Department of Revenue must study the electricity generation sales and use tax exemption and submit a report to the Finance Committee of the House of Representatives and the Ways and Means Committee of the Senate by December 1, 2011, and December 1, 2014. The report must detail employment, wages, and employer-provided health and retirement benefits. The report must measure compliance with the prevailing wage requirements on all installations and the use of apprentices for all installations of electricity generation equipment and machinery that costs \$35,000 or more.

Definitions.

"Apprentice" means an apprentice enrolled in an apprenticeship training program approved by the Washington Apprenticeship Council.

"Labor hours" means the total hours of workers receiving an hourly wage who are directly employed on the site of the project. Labor hours includes hours performed by workers employed by the contractor and all subcontractors working on the project. Labor hours does not include hours worked by foremen, superintendents, owners, and workers who are not subject to prevailing wage requirements.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The existing sales and use tax exemption for renewable energy machinery and equipment has been very successful in providing \$27 million per year to the renewable

energy sector. There is a problem, however, converting to a green energy economy. How can we ensure that workers from all parts of our society are participating in this new economy? Last year's legislation created the Green Industry Jobs Training Account (Account), which is intended to provide opportunity grants to train people from disadvantaged communities for these green jobs. Unfortunately, the Legislature did not fund it. While the Account was created with good intentions, it's meaningless without funding. Because this tax incentive has been so successful, it was the best place to look at funding the Account.

(In support with concerns) Reducing the sales and use tax exemption to 70 percent could negatively impact some project economics and rates of return. Some projects may not come on line with every bit of the incentive available to the developers.

(Opposed) None.

Persons Testifying: (In support) Representative Hasegawa, prime sponsor; Tina Bloomer, Washington State Board for Community and Technical Colleges; and David Johnson, Washington State Building and Construction Trades.

(In support with concerns) Chuck Collins, Cascade Power.

Persons Signed In To Testify But Not Testifying: None.